

# GOVAFFAIRS

## GENERAL LEGISLATIVE MATTERS



### BAY AREA BRIDGES' COST OVERRUN

Complicating the state transportation funding picture is the July 18th passage of AB 144 (Hancock) to fund the Bay Area Bridges' costs overrun. AB 144 sets the state's contribution toward funding the overrun at \$630 million, including 1)

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On July 11th, Governor Arnold Schwarzenegger approved the Fiscal Year 2005-2006 State Budget. Totalling \$90 billion General Fund dollars, the budget includes \$7.5 billion in prior year revenues, \$8.4 billion in current year revenues, and \$209 million in transfers. The \$5.3 billion in non-Proposition 98 expenditures and \$3.6 billion in Proposition 98 expenditures will produce a fund balance for FY06-07 of \$1.9 billion. Of that reserve, \$641 million is set aside for the liquidation of encumbrances; \$1.3 billion remains in a special fund for "economic uncertainties."

In his May Revision, Governor Schwarzenegger promised not to raise taxes or borrow new money to balance the ongoing structural budget deficit. He also proposed an increase to education funding, the full funding of Proposition 42, and an early repayment of debt to cities and counties. The state budget met the Governor's goals and garnered the agreement of legislative leadership.

Education funding continues to comprise the largest categorical expense in the state budget at 40%. Total General Fund (GF) education funding, including set-asides will approach \$50 billion, exceeding the minimum Prop. 98 funding requirement by \$750 million. From all sources, per-pupil spending will exceed \$10,000 for the first time at \$10,325. Health and human services comprise the second largest GF expense in the state budget. At \$27 billion, they consume 30% of state funds.

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## LOBBYISTS' UPDATE

### From Bauer Government Relations

Governor Schwarzenegger signed the State Budget on Tuesday, July 12th. While the Budget was not passed on time, this year was relatively close.

The Budget includes full funding for Proposition 42, which is a significant victory for the transportation community and local government. This was clearly the legislative priority for SCAG and was a major accomplishment.

Funding was included for the Regional Housing Needs Assessment (RHNA) program. Governor Schwarzenegger "blue-penciled" or line item vetoed this funding. We have been assured that an administrative solution will be sought to remedy this funding situation.

A deal was reached on Bay Bridge funding that caps the State's contribution at \$630 million. The deal relies heavily on an increase in Bay Area Bridge tolls. This solution was a very positive outcome considering some of the alternatives placed on the table over the course of the last year.

Upon completion of budget votes and committee hearings, the Legislature adjourned for its Summer Recess. The Legislature will reconvene on August 15th for a final month of session.

As we look ahead to the end of session, there are a number of issues still outstanding that we hope to address. The Governor's GoCalifornia package, which includes public-private partnerships and design-build, are high priorities. This legislation will help the region deal with the impact of goods movement. In addition, an effort is under way to streamline CEQA to allow infill projects to be more efficiently delivered. This is in keeping with the 2% Strategy concept endorsed

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## GENERAL LEGISLATIVE MATTERS *continued*

### BAY BRIDGES CONTINUED

\$300 million to fund the cost of demolishing the eastern span of the San Francisco-Oakland Bay Bridge from the State Highway Operations and Protection Program (SHOPP), project savings, and the federal Highway Bridge Replacement and Rehabilitation Program (FHBRR) and 2) \$330 million derived from \$130 million in Caltrans efficiencies, \$125 million in “spillover” state gasoline sales tax revenues, and \$75 million from the Motor Vehicle Account.

Each of these sources is funded either by state and federal taxes collected throughout California or with savings from state departments and should be allocated on a statewide basis. Because AB 144 earmarks a portion of these funds for the Bay Area bridges, it follows that roughly half of those dollars would have been appropriated for Southern California programs and projects in the absence of AB 144. Consequently, a preliminary rough estimate of the cost to Southern California of the Bay Bridge fix is \$315 million.

Business, Transportation and Housing (BT&H) GF expenditures hold the distinction in the FY05-06 budget of growing by the greatest degree—355.1% to be exact. Last year, only \$374 million were appropriated from the General Fund for BT&H. In FY05-06, that appropriation increases to \$1.7 billion, reflecting the \$1.3 billion transfer of Proposition 42 funds.

Within BT&H, the Department of Housing and Community Development will provide \$390 million to local governments, non-profit organizations, and others to develop additional housing throughout California. This includes disbursements of the Proposition 46 Housing and Emergency Shelter Trust Fund Act of 2002 bonds. An unanswered question about these funds is whether any portion will be allocated to SCAG for Regional Housing Needs Assessment (RHNA) reimbursement as part of the administrative fix contemplated by the Governor’s budget staff following his line-item veto of the \$1 million RHNA funding in Caltrans’ \$5 million State Planning & Research funding of regional blueprint planning.

In addition to the \$1.7 billion GF expenditure budgeted in FY05-06, BT&H’s special funds of \$6.3 billion and bond funds of \$126 million bring the state’s transportation budget to \$8.1 billion. Another \$1.1 billion from the General Government budget will be expended on Local Streets & Roads funding in the form of state subventions. Together, the total state transportation budget from the General Fund, special funds, and bonds is approximately \$9.2 billion.

The Proposition 42 transfer noted above comprises \$1.3 billion of that amount. Tribal gaming bond revenues, which were allocated to transportation in last year’s budget, but were not issued subsequent to litigation, are estimated at \$1 billion in FY05-06. Combined, these two sources will be suballocated to the Traffic Congestion Relief Program (\$808 million), the State Transportation Improvement Program (\$719 million), and the Public Transportation Account (\$402 million).

## LOBBYISTS’ UPDATE *continued*

by the Regional Council. Senate Pro Tem Perata is also working on an infrastructure/goods movement bond. We have shared some technical background advice with both Speaker Fabian Nunez and Senator Perata to make sure that Southern California’s interests are protected. The outcome of this bond is still very much in question as of this writing.

Hanging like a cloud over the remaining days of the legislative session is the Governor’s reform effort on the Special Election ballot. It is hard to envision the Legislature taking significant actions in the policy arena unless some deal is brokered between the legislative leadership and the Governor on the ballot initiatives. We will continue to keep you apprised of developments as they unfold.

### C2 Group:

Congress returned from its Fourth of July recess on July 11th and resumed work on appropriations bills and the transportation reauthorization bill. Before adjourning, the House passed all (11) of its appropriations bills. The final bill, Transportation-Treasury-HUD, was passed on June 30th and includes \$37 billion (\$1.9 billion over the FY05 level) for highways and \$8.482 billion (\$836 million over the FY05 level) for transit programs. The Senate is prepared to mark up its Transportation-Treasury-HUD Appropriations bill on July 19th. It is expected that the Senate bill, like the House bill, will not include project earmarks as members are still waiting for the reauthorization bill to be completed.

The House and Senate transportation reauthorization conferees are continuing to resolve differences in their respective bills. Despite the fact that conferees have tentatively agreed to a funding level of \$286.5 billion over six years (FY04-09), the Administration is still pursuing a \$283.5 billion funding level. Another issue that remains to be resolved is the re-opener language, which would allow Congress to amend the bill in future years. This language is included in the House bill but is opposed by the Senate and the Administration.

Conferees are also trying to resolve the state rate of return issue. There is no agreement yet, but conferees have set a goal of at least 92% by FY09. Conferees have until July 19th to resolve these and other issues before the current extension expires. Congress is expected to pass another short-term extension to give conferees until the end of July to pass a bill.

